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ABSTRACT

This is the second in an annual series of reports that summarize financing trends affecting higher education. The report notes that state appropriations to higher education reached $56.7 billion in fiscal year (FY) 2000, an increase of 7 percent over FY 1999, and the largest ever appropriated by states for higher education. The 1999 legislative sessions were marked by limitations on tuition increases and increases in the use of performance measures and other accountability requirements. Average levels of student indebtedness continued to increase, with loans comprising almost 60 percent of all student financial aid. Affordability, workforce preparation and accountability, performance-based funding, and reform of teacher preparation programs were the most important issues on state legislative agendas for 2000. The report details state appropriations trends at both the state and national levels, examines some regional changes, notes trends in pricing and student financial aid, and examines some other issues, including changes in governance structures, performance-based budgeting, technology and distance education, and projected funding for FY 2001. (Contains 43 references.) (CH)

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FINANCING HIGHER EDUCATION IN THE NEW CENTURY: THE SECOND ANNUAL REPORT FROM THE STATES

Mary P. McKeown-Moak

March 2000

A Joint Project of

SHEEO and MGT of America

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MGT of America is a national consulting firm specializing in higher education management and operational reviews, quantitative and qualitative research, and business evaluations. Dr. Mary P. McKeown-Moak is a Principal in MGT's Austin office. MGT's website is www.mgtofamerica.com

The State Higher Education Executive Officers is a nonprofit, nationwide association of the chief executive officers serving statewide coordinating boards and governing boards of postsecondary education. Its objectives include developing the interest of the states in supporting quality higher education; promoting the importance of state planning and coordination as the most effective means of gaining public confidence in higher education; and encouraging cooperative relationships with the federal government, colleges and universities and other institutional state-based associations. Forty-nine states and Puerto Rico are members.

Copies of this report are available from the SHEEO office for $16 prepaid. Orders may be sent to State Higher Education Executive Officers, 707 Seventeenth Street, Suite 2700, Denver, Colorado 80202-3427. Visit our website at www.sheeo.org.

Foreword

Financing Higher Education in the New Century by Mary McKeown-Moak is the second in an annual series of reports that summarizes financing trends affecting higher education. The report is produced cooperatively with MGT of America, an education consulting firm based in Tallahassee, Florida. The data elements and timing of the report are designed to be of use to executive officers and staff as they respond to legislative funding issues in the current year and begin planning for the coming year.

As with FY99, the first year of the new millennium (or the last year of the current for purists) was marked by extraordinary if not unprecedented support for higher education from state government. With record appropriations from states, a rising share of state budgets, and continuing state budget surpluses, higher education continues to benefit directly from the longest period of national economic expansion in thirty years.

But like good Lutheran farmers who worry that they will be punished in the future for the blessings of the present, our author and her sources (the State Higher Education Finance Officers) wonder how long the good times will last and whether we are adequately planning for the next recession. And despite unprecedented new commitments from the federal government for tuition tax credits, Dr. McKeown-Moak properly notes that the benefits of these tax credits are primarily to the middle class, not the poor. With tuition continuing to rise faster than personal income, many families' ability to pay the increasing costs of education without incurring significant debt is lessening.

We hope the comprehensiveness of this report will serve SHEEO offices well as they analyze their own "state of the state" conditions. We welcome your feedback and your suggestions for improvement.

James R. Mingle
Executive Director
SHEEO

Financing Higher Education in the New Century: The Second Annual Report from the States

Mary P. McKeown-Moak

Overview

State appropriations to higher education reached $56.7 billion in FY2000, an increase of 7.0 percent over FY1999,[1] and the largest total ever appropriated by states for higher education. Total state general fund appropriations for all government services increased by 5.5 percent over FY1999, and, for the second year in a row, appropriations for higher education outpaced the increase in total state general fund appropriations. Although states continued to hold large budget surpluses at the end of 1999, and are projected to have over $27 billion in fund balances at the end of FY2000, fund balances are declining from the record 1999 levels because states spent down some of the fund balances to fund higher education and other programs.[2] Total state appropriations to higher education reached 13 percent of state budgets in FY 2000, the second year in a row of increases in higher education's share of state general fund budgets, following a decade of decreases.[3]

The 1999 legislative sessions were marked by limitations on tuition increases coupled with designated appropriations to offset any decline in college and university revenues, and increases in the use of performance measures and other accountability requirements. Average levels of student indebtedness at graduation continued to increase alarmingly and loans comprised almost 60 percent of all student financial aid.[4] The compliance and reporting requirements of the Taxpayer Relief Act of 1997 (which provided middle and upper-middle income families with additional "financial aid") cost colleges and universities over $30 million, an average of $1.92 per student.[5] At the same time, however, the value of the Act to students and parents was estimated at nearly $14 billion in FY2000.

Affordability, workforce preparation, accountability, performance-based funding, and reform of teacher preparation programs were the top issues facing higher education on state legislative agendas in 2000.[6] When combined with increasing competition for state resources, especially from health care programs, interest in the quality of educational programs and services, and continued interest in tuition reduction and the

affordability of higher education, 2000 promises to be an interesting legislative year for higher education officials. Indeed, improving the quality of education is the number one priority of the nation's governors and figures largely in gubernatorial budget proposals for FY2001.[7]

State Appropriations

FY2000 state operating budget appropriations for higher education reached the highest levels ever, according to data collected in the annual survey of State Higher Education Finance Officers conducted for *Grapevine*. Total state appropriations for FY2000 totaled $56.7 billion, an increase of $3.7 billion or 7.0 percent, over FY1999; and a $7.1 billion, or 13.5 percent increase over FY1998. (See Exhibit 1.) Data are presented for two years because many states have biennial budgets in which large appropriations occur in the first year of the biennium, with no or small increases in the second year.[8]

For the first time in 15 years, no states reported reductions in state appropriations for higher education from one year to the next, and only Wyoming, which is in the second year of a biennial budget, reported no increase. Between FY1999 and FY2000, total state budgets decreased in Alaska, Hawaii, Missouri, Nevada, and Vermont, but higher education budgets did not. Appropriations to higher education increased 7.0 percent nationwide, compared to a 5.5 percent increase in total state budgets. In 32 states, increases in appropriations to higher education outpaced increases in the total state budget.

Over the two-year period FY1998 to FY2000, only Hawaii reported a decline in total state appropriations for the support of higher education. Hawaii continues to be in the midst of a recession in tourism, the state's primary product, but did report increases in higher education appropriations for FY2000 over FY1999. Nationally, appropriations for higher education increased 13.5 percent, compared to an 8.8 percent increase in total state budgets. For 28 states, two-year increases in appropriations to higher education outpaced increases in the total state budget. Hawaii and Wyoming are the only states where appropriations for higher education did not keep pace with projected increases in the Consumer Price Index over the two-year time period FY1998 to FY2000.

Exhibit 1
State Appropriations and Budget Balances

State	FY1999 Approp. For Higher Education*	FY2000 Approp. for Higher Education*	% Change over FY99*	State Budget % Exp. Change**	2-Yr. Change Over FY98*	State Budget 2 Year % Exp. Change**	FY1999 Balances State Gen Funds**	FY1999 Balances As a % of Expend.**	FY2000 Balances State Genl Funds**	FY2000 Balances As a % of Expend.**
Alabama	1,037,680	1,094,839	5.5%	4.8%	10.8%	8.2%	29,000	0.6%	0	0.0%
Alaska	170,403	176,494	3.6%	-2.8%	4.7%	-7.7%	3,015,000	130.2%	1,971,000	86.8%
Arizona	836,389	865,828	3.5%	0.5%	10.0%	12.3%	398,000	6.8%	483,000	8.2%
Arkansas	556,659	605,439	8.8%	5.5%	16.5%	11.3%	37,000	1.2%	0	0.0%
California	7,189,916	7,683,934	6.9%	8.8%	20.6%	16.1%	1,950,000	3.4%	1,660,000	2.6%
Colorado	682,210	719,221	5.4%	2.4%	10.0%	14.0%	421,000	8.0%	669,000	11.2%
Connecticut	626,469	699,290	11.6%	0.3%	18.1%	1.8%	519,000	5.2%	554,000	5.2%
Delaware	164,115	175,621	7.0%	13.3%	15.7%	32.1%	402,000	17.8%	352,000	14.4%
Florida	2,527,401	2,785,631	10.2%	3.2%	19.5%	8.9%	1,185,000	6.6%	1,263,000	6.7%
Georgia	1,530,545	1,560,155	1.9%	0.4%	9.1%	7.6%	366,000	2.9%	376,000	2.8%
Hawaii	322,258	342,247	6.2%	-2.0%	-3.0%	-2.6%	249,000	7.8%	141,000	4.4%
Idaho	266,522	279,390	4.8%	4.0%	11.8%	15.4%	56,000	3.5%	69,000	4.1%
Illinois	2,414,727	2,554,402	5.8%	5.0%	13.0%	14.2%	1,200,000	5.6%	1,350,000	6.0%
Indiana	1,147,819	1,226,677	6.9%	7.3%	12.0%	14.2%	1,657,000	19.6%	1,347,000	14.9%
Iowa	784,987	826,589	5.3%	5.5%	10.2%	9.6%	725,000	16.1%	503,000	10.5%
Kansas	604,704	622,198	2.9%	6.1%	8.9%	16.4%	524,000	12.5%	286,000	6.4%
Kentucky	886,700	924,048	4.0%	5.0%	19.7%	14.9%	288,000	4.4%	252,000	3.9%
Louisiana	861,843	885,055	2.7%	0.4%	15.0%	-0.2%	2,000	0.1%	53,000	0.9%
Maine	204,149	213,454	4.6%	5.8%	12.1%	20.0%	118,000	5.5%	158,000	6.9%
Maryland	942,743	1,042,683	10.6%	4.7%	17.7%	13.0%	752,000	8.9%	807,000	9.0%
Massachusetts	997,595	1,047,475	5.0%	3.7%	14.5%	3.0%	1,173,000	6.4%	1,635,000	8.5%
Michigan	1,882,500	2,073,579	10.2%	5.0%	13.2%	6.7%	1,144,000	13.0%	1,357,000	14.7%
Minnesota	1,239,394	1,280,627	3.3%	3.5%	8.3%	15.3%	1,427,000	12.5%	1,251,000	10.9%
Mississippi	789,553	917,087	16.2%	8.2%	24.3%	15.2%	311,000	10.0%	249,000	7.3%
Missouri	919,548	977,626	6.3%	-0.8%	15.6%	3.6%	202,000	2.9%	212,000	3.0%
Montana	129,929	138,477	6.6%	6.1%	8.8%	7.2%	25,000	2.4%	143,000	13.0%
Nebraska	440,095	473,939	7.7%	4.1%	14.0%	19.5%	287,000	12.9%	270,000	11.6%
Nevada	290,363	305,983	5.4%	-0.4%	4.9%	5.4%	221,000	14.4%	232,000	14.5%
New Hampshire	91,837	96,428	5.0%	9.0%	8.4%	12.5%	22,000	2.3%	32,000	3.1%
New Jersey	1,454,112	1,519,546	4.5%	7.5%	8.8%	14.0%	700,000	3.9%	780,000	4.1%
New Mexico	517,247	544,091	5.2%	3.3%	11.6%	6.1%	249,000	7.9%	232,000	7.0%
New York	3,033,704	3,126,582	3.1%	2.4%	9.5%	9.5%	1,669,000	4.5%	2,845,000	7.6%
North Carolina	2,171,339	2,293,097	5.6%	5.8%	13.8%	15.3%	523,000	4.2%	364,000	2.7%
North Dakota	173,107	187,459	8.3%	2.0%	8.3%	6.5%	78,000	10.2%	41,000	5.3%
Ohio	1,937,077	2,060,555	6.4%	7.3%	10.1%	15.4%	1,334,000	7.2%	1,322,000	6.8%
Oklahoma	725,450	739,520	1.9%	1.9%	10.5%	8.7%	523,000	11.7%	382,000	8.4%
Oregon	556,335	650,142	16.9%	7.7%	19.5%	16.0%	408,000	9.0%	268,000	5.5%
Pennsylvania	1,773,094	1,879,605	6.0%	3.8%	9.5%	7.9%	813,000	4.5%	1,075,000	5.6%
Rhode Island	142,011	150,790	6.2%	8.2%	12.5%	17.0%	89,000	4.3%	93,000	4.2%
South Carolina	777,801	812,709	4.5%	13.0%	6.8%	11.0%	364,000	7.6%	331,000	6.2%
South Dakota	125,882	130,345	3.5%	2.7%	7.8%	7.3%	40,000	5.4%	37,000	4.9%
Tennessee	957,970	984,860	2.8%	4.3%	6.6%	11.2%	227,000	3.6%	36,000	0.5%
Texas	3,527,867	4,093,434	16.0%	8.9%	15.1%	9.5%	3,761,000	14.0%	24,000	0.0%
Utah	492,035	546,774	11.1%	4.0%	15.8%	10.4%	99,000	3.1%	111,000	3.3%
Vermont	59,173	63,378	7.1%	-0.1%	10.9%	-13.0%	75,000	9.9%	41,000	4.9%
Virginia	1,299,919	1,480,258	13.9%	8.8%	26.3%	21.3%	361,000	3.6%	558,000	5.0%
Washington	1,146,399	1,238,035	8.0%	3.4%	11.3%	8.1%	904,000	9.3%	477,000	4.7%
West Virginia	362,261	372,505	2.8%	7.6%	5.5%	14.6%	67,000	2.5%	81,000	2.9%
Wisconsin	1,040,341	1,075,238	3.4%	12.7%	7.3%	16.4%	13,000	1.9%	549,000	4.9%
Wyoming	139,711	139,711	0.0%	12.1%	3.5%	12.1%	78,000	15.1%	57,000	10.1%
National Total or Average	52,953,888	56,683,050	7.0%	5.5%	13.5%	8.8%	31,080,000	7.1%	27,378,000	5.6%
High	7,189,916	7,683,934	16.9%	13.3%	26.3%	32.1%	3,761,000	130.2%	2,845,000	86.8%
Low	59,173	63,378	0.0%	-2.8%	-3.0%	-13.0%	2,000	0.1%	0	0.0%

Note: Dollars in Thousands.

*Source: Grapevine

**Source: National Association of State Budget Officers

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When compared to increases in the Consumer Price Index (CPI)[9] over the time period FY1998 to FY2000, state appropriations to higher education have increased over three times as fast as the CPI – 13.5 percent compared to 4.3 percent. Over the 10 years between FY1990 and FY2000, state appropriations to higher education increased 44.5 percent, significantly greater than the CPI increase of 32.0 percent.

States where increases in higher education funding were the greatest over the two years have experienced increases in enrollments, or have gone through major restructuring of the governance or funding of higher education. (This includes California, Florida, Kentucky, Mississippi, Oregon, and Virginia, all of which had increases greater than 19 percent.) Many states earmarked increases in appropriations for moderation of tuition increases, economic development activities, student financial aid, community colleges, and one-time expenditures such as construction, deferred maintenance and technology initiatives. The focus on one-time spending increases may reflect a desire to avoid over-commitment of resources that led to reversions and budget cuts during the 1980s and early 1990s.[10]

At the national level, total state general fund budgets increased 5.5 percent in FY2000 over FY1999, and 13.5 percent over FY1998. However, these increases are less than increases reported last year (one-year change, 8.7%; two-year change, 14.4%). (See Exhibit 1.) Every state reported general fund balances at the end of FY1999 and only Alabama and Arkansas project no fund balance or "rainy day fund" for FY2000. Alaska, Hawaii, and Nevada reduced budgets mid-year, but higher education was exempt from the cuts in Alaska and Hawaii. This number is considerably lower than the number of states that have been forced to reduce their enacted budgets in previous years.[11]

However, FY 2000 projected surpluses are $8 billion less than FY1999 actual surpluses. Although FY1999 surpluses were projected to be $5 billion less than FY1998, actual FY1999 surpluses exceeded FY1998 levels due in large part to cautious spending patterns and much higher than projected revenues.[12] Every state provided employee compensation increases for FY2000, including increases for university employees.

States earmarked expenditures of portions of fund balances or "rainy day funds" for current use, including use in higher education. California, Connecticut, Indiana,

South Carolina, Texas, Vermont, and Washington explicitly earmarked funds for the operating expenditures of higher education. An additional nineteen states used surpluses for capital construction that included projects at colleges and universities; eight states used funds for economic development projects and for investments in technology at colleges and universities.[13]

In FY2000, higher education's share of state general fund budgets increased from 12.11 percent in FY1999 to 12.58 percent in FY2000 (and from 12.09 percent in FY1998 to 12.11 percent in FY1999).[14] In FY1987, higher education was allocated 15.5 percent of state general fund budgets. Higher education's share dropped to 12.9 percent in FY1997 and to 12.09 percent in FY1998, before increasing in FY1999. The increase in FY2000 may reflect expenditures of portions of the rainy day funds or fund balances for one-time appropriations to higher education. State general fund budgets as reported by NASBO reflect tax rebates and reductions, and include budget surpluses as expenditures.

Additionally, appropriations per FTE student (in constant dollars) continue to increase, but have not returned to the high levels of 1986 through 1988. Since 1993, state appropriations per full-time equivalent student have increased in constant dollars, according to data from Research Associates of Washington. In the years between 1988 and 1993, state appropriations per FTE student fell by more than 15 percent, but have now recovered to 1984 levels.[15]

Regional Changes

When changes in appropriations are examined by region of the country, where region is defined by the National Association of State Budget Officers, there are significant variations in percentage increase in appropriations. The southwest states (Arizona, New Mexico, Oklahoma, and Texas) experienced the greatest average increase from FY1999 to FY2000, but not the greatest two-year increase. The New England, southwest, and far west states had average increases greater than 7.0 percent. Far west states had the greatest two-year percentage increase in state appropriations, 17.6 percent compared to the national average 13.5 percent. States in the southeast, New England, southwest, and far west averaged two-year increases of at least 13.5 percent. (See Exhibit 2.)

Exhibit 2

Regional Changes in Appropriations #

State	FY99 State Approp. For Higher Education*	FY2000 State Approp. For Higher	% Change over FY99*	2 Yr. % Change Over FY98*
Southeast:				
Alabama	1,037,680	1,094,839	5.5%	10.8%
Arkansas	556,659	605,439	8.8%	16.5%
Florida	2,527,401	2,785,631	10.2%	19.5%
Georgia	1,530,545	1,560,155	1.9%	9.1%
Kentucky	888,700	924,048	4.0%	19.7%
Louisiana	861,843	885,055	2.7%	15.0%
Mississippi	789,553	917,087	16.2%	24.3%
North Carolina	2,171,339	2,293,097	5.6%	13.8%
South Carolina	777,801	812,709	4.5%	6.8%
Tennessee	957,970	984,860	2.8%	6.6%
Virginia	1,299,919	1,480,258	13.9%	26.3%
West Virginia	362,261	372,505	2.8%	5.5%
Subtotal, Southeast	13,761,671	14,715,683	6.9%	15.2%
Mid-Atlantic:				
Delaware	164,115	175,621	7.0%	15.7%
Maryland	942,743	1,042,683	10.6%	17.7%
New Jersey	1,454,112	1,519,546	4.5%	8.8%
New York	3,033,704	3,126,582	3.1%	9.5%
Pennsylvania	1,773,094	1,879,605	6.0%	9.5%
Subtotal, Mid-Atlantic	7,367,768	7,744,037	5.1%	10.5%
New England:				
Connecticut	626,469	699,290	11.6%	18.1%
Maine	204,149	213,454	4.6%	12.1%
Massachusetts	997,595	1,047,475	5.0%	14.5%
New Hampshire	91,837	96,428	5.0%	8.4%
Rhode Island	142,011	150,790	6.2%	12.5%
Vermont	59,173	63,378	7.1%	10.9%
Subtotal, New	2,121,234	2,270,815	7.1%	14.8%
Great Lakes:				
Illinois	2,414,727	2,554,402	5.8%	13.9%
Indiana	1,147,819	1,226,677	6.9%	12.3%
Michigan	1,882,500	2,073,579	10.2%	13.2%
Ohio	1,937,077	2,060,555	6.4%	10.1%
Wisconsin	1,040,341	1,075,238	3.4%	7.3%
Subtotal, Great Lakes	8,422,464	8,990,451	6.7%	11.5%
Plains:				
Iowa	784,987	826,589	5.3%	10.2%
Kansas	604,704	622,198	2.9%	8.9%
Minnesota	1,239,394	1,280,627	3.3%	8.3%
Missouri	919,548	977,626	6.3%	15.6%
Nebraska	440,095	473,939	7.7%	14.0%
North Dakota	173,107	187,459	8.3%	8.3%
South Dakota	125,882	130,345	3.5%	7.8%
Subtotal, Plains	4,287,717	4,498,783	4.9%	10.8%
Southwest:				
Arizona	836,389	865,829	3.5%	10.0%
New Mexico	517,247	544,091	5.2%	11.6%
Oklahoma	725,450	739,520	1.9%	10.5%
Texas	3,527,867	4,093,434	16.0%	15.1%
Subtotal, Southwest	5,606,953	6,242,873	11.3%	13.5%
Rocky Mountain:				
Colorado	682,210	719,221	5.4%	10.0%
Idaho	266,522	279,390	4.8%	11.8%
Montana	129,929	138,477	6.6%	8.8%
Utah	492,035	546,774	11.1%	15.8%
Wyoming	139,711	139,711	0.0%	3.5%
Subtotal, Rocky	1,710,407	1,823,573	6.6%	11.3%
Far West:				
Alaska	170,403	176,494	3.6%	4.7%
California	7,189,916	7,683,934	6.9%	20.6%
Hawaii	322,258	342,247	6.2%	-3.0%
Nevada	290,363	305,983	5.4%	4.9%
Oregon	556,335	650,142	16.9%	19.5%
Washington	1,146,399	1,238,035	8.0%	11.3%
Subtotal, Far West	9,675,674	10,396,835	7.5%	17.6%

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Pricing and Financial Aid Trends

Undergraduate resident tuition and fees rose 4.7 percent in 1999-2000 at public universities, and 3.4 percent at community colleges, increasing from $3,247 to $3,356 at four-year public universities, and from $1,554 to $1,627 at two-year public colleges.[16] (See Exhibit 3.) Non-resident undergraduate tuition and fees in 1999-2000 at community colleges averaged $4,818 and $8,706 at public four-year colleges and universities. Room and board charges at four-year public college and universities increased 4.6 percent, from $4,522 to $4,730. Tuition and fees tend to be higher in the northeast and midwest, and lower than average in the south and southwest.

Total cost of attendance (COA) at a public four-year college or university typically would be $10,909 for an undergraduate in-state student who lived on campus, and $8,774 for a commuter student. At two-year public colleges, the typical cost of attendance for an in-state student during 1999-2000 would be $6,599.

Exhibit 3
Average College and University Prices
1999-2000

	Two-year Public Colleges	Four-year Public Colleges
In-State:		
Tuition and Fees, 1999-2000	$1,627	$3,356
Tuition and Fees, 1998-99	$1,554	$3,247
Percent Change	4.7%	3.4%
Room and Board, 1999-2000*	$2,128	$4,730
Room and Board, 1998-99*	$2,039	$4,522
Percent Change	4.4%	4.6%
Books and Supplies	$645	$681
Transportation, Commuter	$997	$1,005
Transportation, Resident	$658	$658
Other Expenses	$1,202	$1,484
Total Budget, 1999-2000		
Resident	N/A	$10,909
Commuter	$6,599	$8,774

*Includes only board at two-year colleges

Source: College Board, *Trends in College Pricing, 1999*.

Average public four-year in-state tuition rose 98.1 percent in current dollars or 51 percent in constant dollars over the time period FY1990 to FY2000. Similarly, average public two-year in-state tuition rose 93.2 percent in current dollars and 48 percent in constant dollars over the same time. In contrast, median family income has risen only 22 percent since 1981, and the average cost of attendance (at public four-year colleges) as a share of family income has increased significantly for low- and middle-income families.[17] For families whose income is in the lowest fifth of the distribution, average cost of attendance has increased from 40 to 62 percent of family income; and for families who are in the middle quintile, the COA increased from 12 to 17 percent of income. For families whose income is in the highest quintile, average cost of attendance has remained at 6 percent of family income.

The cost of attendance or price of higher education continues to receive significant public scrutiny and congressional inquiry. In February 2000 congressional attention focused on the price of higher education as the Senate Committee on Governmental Affairs held a two-day investigative hearing on rising college tuition levels. Senators warned colleges and universities to keep price increases in check or risk federal cost controls.[18]

During 1999 sessions, legislatures addressed the issue of rising tuition costs by imposing tuition freezes, reducing tuition levels, placing restrictions on the rate of increase in tuition, and/or by providing appropriations to offset loss of revenues from smaller tuition increases.[19] Following legislative action during 1998 sessions in Colorado, Indiana, Maine, New Jersey (for community colleges), and Washington, additional changes in tuition setting policy or in tuition levels took place in 14 states during 1999. In Arizona and Wisconsin, state policies on setting of tuition and fees were changed; and in Louisiana, tuition can be increased only by a two-thirds vote of the legislature. Connecticut, Indiana (for two-year institutions), and Ohio (for in-state undergraduates), Oregon (for undergraduate residents), and Wisconsin (for resident undergraduates) froze or reduced tuition levels and provided additional appropriations to offset lost revenues. Virginia's governor proposed a funded tuition freeze for in-state undergraduates that is linked to performance indicators.

Several states established study groups or commissions to consider changes to state tuition policies. Hawaii proposed a five-year tuition plan; New Mexico is considering a statewide policy to formalize setting of tuition as a percent of cost; tuition setting authority was delegated to the universities in Kentucky following a study of costs. Missouri established a Commission on the Affordability of Higher Education to make recommendations on tuition and fees and expects the Commission's report to recommend lower increases for next year. The University of North Carolina board implemented recommendations of the Task Force on Tuition Policy, including differential tuition for undergraduate and graduate students. North Dakota is studying a per-credit-hour tuition model, and changes in tuition for distance education courses, while South Dakota changed its policy to charge the same for courses no matter what the delivery method. The Pennsylvania State System adopted a comprehensive tuition policy with differentials following its study of tuition policy, and Utah began a program of differential tuition for graduate programs. The Wyoming Community College Commission is reviewing its tuition policy and likely will make changes for the next five years.

Much of the interest in tuition prices is attributed to the congressionally appointed National Commission on the Cost of Higher Education, which released its final report, *Straight Talk About College Costs and Prices,*[20] in January 1998. In addition to heightened interest in state legislatures, the Commission's report is credited with being the impetus for some of the changes in the Higher Education Act, which Congress re-authorized in October 1998. Beginning with academic year 2001, colleges and universities will be required to report data on college costs, using standardized definitions for tuition and fees and the cost of attendance. Additionally, a national longitudinal study of college and university expenditures is under consideration. If funded it will provide trend information on tuition and fees compared to the Consumer Price Index, and financial aid. Colleges and universities that do not report the required information will be subject to a $25,000 fine. The Department of Education began beta testing of survey instruments to collect cost data this past year, and is on target for academic year 2001 implementation.

In academic year 1998-99, an estimated total of $64.1 billion in student financial aid was awarded to students attending postsecondary institutions, an increase of 4 percent over academic year 1997-98 after adjusting for inflation. The federal

government provided about 72 percent of total aid, and over 55 percent of total aid was awarded as loans. (See Exhibit 4.) [21] Not included in the totals are student wages that are not a part of work-study programs, or any of the federal tuition credits created by the Taxpayer Relief Act of 1997. These benefits took effect for tax year 1998, and have been estimated to provide $12 to $15 billion in credits each year when fully phased in by 2002. Total student financial aid exceeded state appropriations for higher education, even when the $3.5 billion in state grant funding is excluded ($60.6 billion in financial aid excluding state grants vs. $56.7 billion in state appropriations).

Over the last ten years, aid increased about 85 percent in constant dollars although increases in loan programs accounted for over 67 percent of the increase. Loans from all sources totaled 58 percent of all aid, compared to 47 percent in 1992-93 and 41 percent in 1980-81. The greatest increases have occurred in the unsubsidized loan program that comprises 45 percent of all federal student loans. Average indebtedness at graduation has increased to alarming levels.

State grant funding increased by over 65 percent in constant dollars over the past ten years, but still comprises only 5.5 percent of total student aid. Although institutional aid has more than doubled since 1989, available grant aid has not offset relative declines in federal grants, nor has total aid increased as fast as increases in the cost of attendance. As a result, the cost of attendance consumes a greater share of personal income, as mentioned earlier.

Enactment of the Taxpayer Relief Act of 1997 (TRA97) provided new federal "student aid" through the use of income tax credits, savings incentives, and limited deductibility for interest paid on student loans. These programs are projected to cost about as much as all other existing federal financial aid programs combined, and represent a significant shift in how the federal government provides funding for higher education.[22] The new credits are not need-based, represent revenue foregone rather than expenditures, and will benefit primarily middle and upper-middle income students and their families. (Tax credits are capped, however, for family incomes above $100,000). Lower income students who owe no federal taxes will not benefit and those students whose family tax bill is less than the credit will receive partial benefits.

Federal tax expenditures (such as the HOPE and Lifetime Learning Credits) that represent foregone income are estimated to total about $13.8 billion in FY2000, compared to about $7.2 billion for Pell Grants.[23] Some provisions of federal law related to tax treatment of some "financial aid" were amended in 1999 tax changes. Earnings on qualified state tuition programs were exempted, the gross income exclusion of up to $5,250 per year of employer provided undergraduate education assistance was extended until 2003, and the limit on contributions to educational IRAs was increased to $2,000 per year.

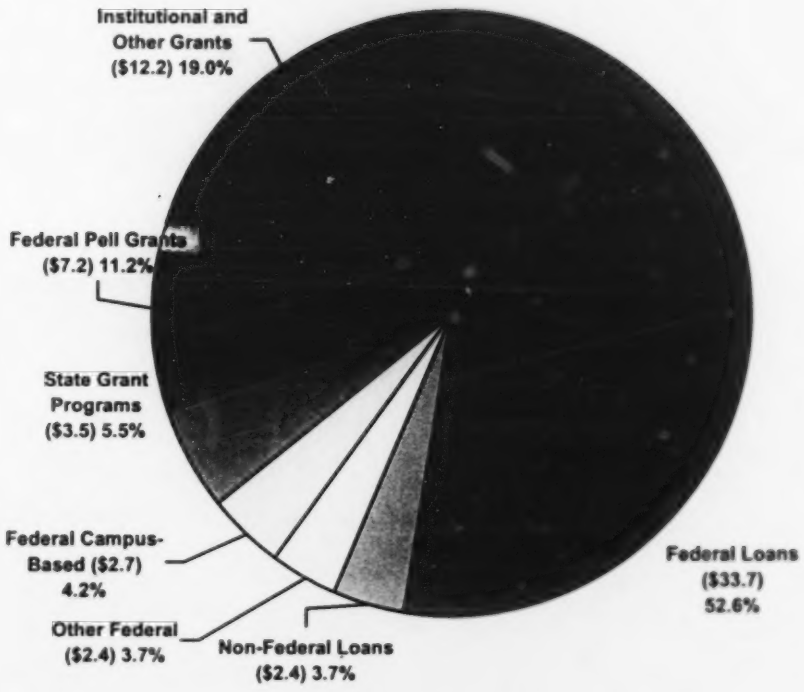
Advocates of traditional forms of need-based aid believe that expansion of tax expenditures does not bode well for access to higher education.

The Taxpayer Relief Act, including the HOPE Scholarship and Life Long Learning Tax Credits, appears to have contributed to the debate over tuition increases. State legislators question whether the tax credits and increases in federal financial aid created incentives for public colleges and universities to raise tuition and fees, or reduce the need for increased state financial aid.[24] Continued debate is likely as the revenue implications (on state budgets) of TRA97 become clearer.

Despite the direct benefits to parents and students, colleges and universities consider reporting requirements related to the Act as onerous and an "unfunded" federal mandate. Each college or university was required to send by February 1, 1999 (with similar requirements for each year thereafter) a tax form to individuals who paid for credit courses during 1998. The cost of getting the forms out, and providing assistance to students and their parents who are likely to call with questions, was estimated to exceed $100 million in the first year, according to a survey by the National Association of College and University Business Officers.[25] Despite this dire cost prediction, colleges and universities expended an average of $1.92 per student to mail tax forms, or a total of approximately $30 million, to comply with the reporting requirements.[26]

Exhibit 4

Estimated Student Aid by Source FY1999
Total Aid Awarded: $64.1Billion


Institutional and Other Grants ($12.2) 19.0%
Federal Pell Grants ($7.2) 11.2%
State Grant Programs ($3.5) 5.5%
Federal Campus-Based ($2.7) 4.2%
Other Federal ($2.4) 3.7%
Non-Federal Loans ($2.4) 3.7%
Federal Loans ($33.7) 52.6%

(Dollars in billions)

Source: The College Board, *Trends in Student Aid 1999.*

Smaller colleges faced more difficulties in providing the forms than did large, research universities. However, the burden of reporting will continue as reporting requirements and rules related to reporting continue to change.

During 1998 legislative sessions, twelve states adopted some merit-based scholarship program, copying the Georgia HOPE Scholarship in most cases. While many higher education analysts criticize this program, it is enormously popular with legislatures. Seventeen states enacted new financial aid programs or extended the provisions of existing programs, many of them modeled on HOPE. [27] Although the

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Alabama legislature approved a new program, Alabama voters defeated a proposal that would link increased funding for the HOPE program to a lottery.[28]

Arkansas extended the income provisions of the Arkansas Academic Challenge Grant and established the GIFT program, which is a form of educational savings accounts. Illinois extended need-based aid to students enrolled less than half-time; Indiana extended need-based grants to students attending proprietary schools, and provided larger awards to high school graduates with more rigorous curricula. Massachusetts implemented a State College Grant Program and Missouri implemented a loan and loan forgiveness program for designated high demand occupations. Nevada established a form of HOPE scholarship program funded by tobacco settlement funds; Pennsylvania established a scholarship program for students in science and technology programs; and Texas approved a need-based program for students who completed a recommended high school curriculum. West Virginia and Washington began "Promise Scholarships" for high school students in the top 10 percent of their class; both programs are modeled after the HOPE program.

Florida and Virginia established college savings programs, in addition to their prepaid college tuition program. Similarly, Hawaii, Kansas, Maine, Missouri, North Dakota, and Oklahoma established new college savings plans.

All of the prepaid college tuition or college savings programs and the federal HOPE and Lifetime Learning programs represent tax expenditures, or foregone revenues, to the federal and state governments. Significant questions have been raised about the trend of governments subsidizing the clients of higher education (students and their families) as opposed to subsidizing the institutions. The impact of these programs on access and equity issues is unclear.[29]

Since 1981 current fund revenues of public higher education institutions have experienced a shift in the proportions of revenues from state appropriations and tuition. In 1981 state appropriations contributed about 44 percent of total revenues at public four-year institutions, and tuition made up 12.9 percent of revenues. In 1997, the latest year for which data are available, state appropriations' share declined to 31 percent, while tuition's share of current revenues had climbed to 19.6 percent.[30] It appears that universities and especially research universities are becoming state-aided instead of state-funded.

The trend of placing more of the financial burden for the costs of higher education on students instead of on the state as the main provider of funds is troubling. The increasing reliance on unsubsidized loans as the main form of student financial aid even for the most needy students, and the shift to tax expenditures as additional "financial aid" that benefits primarily middle and upper-middle income families, portend a shift in which individuals will be likely to attend college. Questions on commitment to access to a higher education for all are raised by these shifts.

There is no clear evidence yet on how the tying of state appropriations increases to freezes or reductions in the rate of increase of tuition will effect institutional revenues. Over half of the states reported that colleges and universities are constrained by state policy to limited increases in tuition. In some states, tuition increases cannot exceed the increase in the CPI or Higher Education Price Index (HEPI).[31] In the short run, institutional budgets should not be negatively impacted; however, when the economy experiences a downturn, freezes on tuition increases coupled with little or no increase in state appropriations will require reductions in services or quality or an increase in productivity. Indeed, the University of North Carolina system's board sharply increased tuition for the next two years at its flagship campuses in response to the prospect of reductions in state appropriations.[32]

Other Issues

During the 1990s, nine states fundamentally changed their higher education governance structures, and at least 20 other states studied and debated the issue.[33] About one-quarter of the states reported significant governance changes in 1998 affecting issues of increased budget or management flexibility to be able to deal with financial changes more effectively. For at least three of these states (Kentucky, Massachusetts, and Virginia) changes in governance appear to have resulted in significant increases in state appropriations as legislators and governors may have had more confidence in the ability of higher education to serve the state's needs. However, this trend has moderated, and only two states reported any discussions of changes in governance in 1999 legislative sessions.

During 1999 legislative sessions, several states discussed additional flexibility as a trade-off to performance indicators or funding. The National Association of State Budget Officers has called performance-based budgeting and funding the most

significant trend in state budgeting.[34] In 1998, 34 states either had adopted performance budgeting or performance funding for public institutions.[35] South Carolina is the only state where the majority of state appropriations are supposed to be allocated by performance funding; in most other states, no more than five percent of the appropriation is allocated by performance indicators. Burke and Serban contend that these funding programs represent a significant shift in funding priorities from what states should do for higher education to what higher education should do for the state and its citizens.

Emerging Issues in 2000 Legislative Sessions

As the national economy continues to boom, there appears to be optimism among higher education officials that funding will increase and greater autonomy will result from 2000 legislative sessions.

Higher education leaders expected that FY2000 appropriations for higher education would increase 12 percent on average at four-year institutions and over 21 percent at two-year colleges.[36] However, increases in appropriations averaged much lower. Few state appropriations increases matched leaders expectations. (See Exhibit 5.) For the senior colleges and universities, leaders predicted that increases for FY2000 would average 12.8 percent, while actual percentage increases for four-year colleges and universities averaged 6.3 percent. For community colleges, average increases were 7.6 percent, compared to 21.4 percent projected. Despite this poor record, leaders continue to predict that increases for 2001 will exceed 10 percent.

Moreover, the economy appears to be slowing as the rate of growth in the Gross Domestic Product (GDP) has moderated. Inflation likely will continue to be in check, which may put pressure on unemployment rates.[37] Tax cuts are likely to continue, although states may have reached the limit of tax decreases. States continue to maintain high budget balances (albeit smaller balances that represent less than five weeks of expenditures) to protect against downturns in the economy and midyear reversions or reductions of the kind that occurred in the 1980s and early 1990s.

Unlike 1999, protection of base budgets does not appear to be an issue that will be discussed in 2000 legislative sessions. Institutions in a third of the states foresee continuing interest in limitations on tuition increases and/or increased appropriations to

offset freezes or reductions in the rate of increase in tuition and fees.[38] Competition from elementary/secondary education and health care components of state budgets are likely to place pressures on continued increases in appropriations for higher education.

Performance funding and accountability issues are likely to be one locus of legislative discussions. Over half the states are studying some form of performance measurement, and 21 states report that performance funding or accountability measures will be on legislative agendas.[39] More than one-third of the states are examining workload and productivity as a means of improving learning outcomes or decreasing expenditures.

Funding for technology or other issues related to technology and distance learning was cited as an interest of legislators in over 60 percent of the states.[40] As was mentioned earlier, legislatures in 24 percent of the states provided funding for technology improvements during 1999 legislative sessions. This interest continues as legislators respond to employers who seek workers trained in technological applications.

Higher education officials in half the states indicated that connecting FY2001 requests to economic development activities likely will be an effective strategy for gaining new funds. Officials in 27 states predict that economic development will be a major focus in the 2000 legislative session.[41]

Exhibit 5

Projected and Actual Percentage Increase in Appropriations, from *The Chronicle of Higher Education*
FY 1999 to FY2000

State	Projected Percent Increase		Actual Percent Increase	
	Four-year	Two-year	Four-year	Two-year
Alabama	20.5%	18.3%	6.1%	5.9%
Alaska	10.4%		3.6%	
Arizona	10.6%	39.6%	2.9%	7.5%
Arkansas	7.9%		8.1%	
California	5.8%	14.0%	3.3%	13.6%
Colorado	7.4%		4.0%	
Connecticut	19.1%		10.5%	
Delaware	5.0%	3.5%	6.5%	7.1%
Florida	10.9%	24.0%	10.2%	6.9%
Georgia	8.7%		1.9%	
Hawaii	6.5%		6.2%	
Idaho	11.5%	12.0%	3.9%	5.6%
Illinois	6.6%	6.6%	4.4%	5.4%
Indiana	7.0%		6.9%	
Iowa	3.5%	4.6%	5.4%	4.6%
Kansas	7.6%	13.2%	2.9%	2.8%
Kentucky				
Louisiana	37.8%		2.7%	
Maine	4.1%	3.0%	7.3%	-0.4%
Maryland	8.3%	11.1%	10.7%	8.9%
Massachusetts	6.6%		5.0%	
Michigan	12.0%		10.2%	
Minnesota	9.1%	10.6%	4.8%	1.1%
Mississippi	18.2%	32.4%	16.5%	16.4%
Missouri	13.5%		8.3%	
Montana	5.4%		6.6%	
Nebraska	6.9%	4.7%	5.5%	23.9%
Nevada	45.1%		5.4%	
New Hampshire	7.0%	20.0%	3.7%	9.7%
New Jersey	3.9%	15.4%	3.4%	9.4%
New Mexico	8.3%		5.2%	
New York	2.8%	12.7%	2.3%	4.0%
North Carolina	11.1%	55.1%	5.6%	7.2%
North Dakota	10.5%		6.8%	
Ohio	7.6%		6.4%	
Oklahoma	14.1%		1.9%	
Oregon	36.5%	125.0%	23.4%	5.6%
Pennsylvania	6.0%	5.5%	4.9%	5.6%
Rhode Island	14.6%		6.2%	
South Carolina	11.0%		4.5%	
South Dakota	3.8%		3.5%	
Tennessee	14.2%		2.8%	
Texas	53.8%		16.0%	
Utah	7.4%		11.1%	
Vermont	8.0%	14.7%	7.4%	7.0%
Virginia				
Washington	19.7%	24.7%	7.3%	8.6%
West Virginia	5.8%		2.8%	
Wisconsin	3.4%		3.4%	
Wyoming				
National Average	12.8%	21.4%	6.3%	7.8%

Source: Calculated by MGT from Grapevine data. Projections from the *Chronicle*.

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Maintaining college access and affordability also appears to be a continuing issue on legislative agendas. Legislation has been proposed in Idaho to establish scholarship programs patterned on the HOPE program. Because of the change in federal tax law, several states are investigating establishment of prepaid tuition programs (Idaho, Kentucky, and Nebraska). Vice President Gore announced as part of his presidential campaign that he would propose removing state boundaries from pre-paid tuition programs. Illinois introduced legislation for a Career Scholarship Program for high school graduates who seek postsecondary education, but not a baccalaureate, and for Information Technology Grants for students seeking certification in information technology fields.

Although reform of teacher preparation programs was cited as one of the most pressing issues for higher education in state legislatures this year,[42] only five SHEFOs highlighted teacher preparation as an issue. (This is in dramatic contrast, however, to the SHEEO survey of executive officers who ranked teacher education the number one issue). The lack of concern by SHEFOs is especially surprising in light of the provisions related to teacher preparation programs in the reauthorization of the Higher Education Act. Grants totaling $300 million were authorized for school-college partnerships to improve the training of teachers and to recruit more teachers to underserved areas. Additionally, states are required to present annual report cards on teacher education programs that describe standards, pass rates on teacher assessment exams, and certification requirements.

Although the economy remains strong, some signs of stress are beginning to appear. Growth rate in the Gross Domestic Product has slowed and personal savings rates continue to fall. If the past can be used to predict the future, higher education is unlikely to achieve ten percent increases projected by higher education officials for state appropriations in FY2001. If a recession occurs in the near future, a number of states will face significant budget pressures that will be compounded by transfers of health care programs from the federal to state governments.

Higher education is one of the few discretionary items in state budgets and always is vulnerable to funding reductions. When coupled with the trend to fund students and their families from tax expenditures, institutions may be facing actual budget reductions in the next ten years. Pushes to incorporate asynchronous learning

based on technology also will tax university budget makers, at the same time as traditional institutions are competing for students with e-commerce companies like Concord, an on-line law school; Unext.com, a start-up company that plans to offer a full range of college courses over the Internet; and for-profit web sites offering on-line liberal arts education. Perhaps implementation of alternative delivery mechanisms and funding sources such as worldwide sales of courses over the Internet may be the 21st century way to balance higher education budgets.

However, 2000 is an election year, and presidential candidates already have weighed in on higher education funding, as mentioned above. In *State Spending for Higher Education in the Next Decade*,[43] Harold Hovey points out that this may not be higher education's turn for any increases in state appropriations. The fiscal forecast for state spending indicates that even with normal economic growth over the next decade, states likely will face significant fiscal deficits. Hovey contends that higher education will not see significant expansion for any program unless expansion is funded by cuts in other higher education programs, and so the challenge will be to maintain current service levels to an expanding client population. (Hovey's pessimistic prediction was not confirmed for FY2000 higher education budgets).

Although budget, autonomy, and tuition setting are likely to be issues during 2000 legislative sessions, this may be the year for cautious optimism about the future. Higher education's share of state budgets is increasing, total appropriations are increasing, new financial aid programs are being implemented, and legislatures and governors appear to consider higher education a partner in economic development. Also, the federal government is expanding financial aid programs. One challenge for higher education is to take advantage of the many exciting opportunities during the new decade, century, and millennium.

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